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ABSTRACT

Responsibility for expenditures by schools in Hawaii for such utilities as electricity, telephone, gas, water, and sewer is shifting from the Department of Education to schools. In shifting responsibility for processing telephone and electricity payments to local schools while retaining management functions, the department failed to develop clear objectives, ensure schools possess adequate resources, or maintain accurate expenditure records by location. Departmental responsibility for gas, water, and sewer costs failed to produce such management benefits as accountability, flexibility, and conservation. Control of funds by the department penalized schools saving energy funds, failed to ensure school accountability or promote clear conservation efforts and incentives, and left schools short-staffed. Poor formatting and cost miscoding made departmental expenditure reports incomplete and inaccurate, undermining budget requests to the legislature. Utility allocations were inadequate because workload increases were unfunded and project costs underestimated, though the department now appears to be improving projected electricity cost calculations. The department should review current decisions which shift costs to schools, establish clear objectives, standardize expenditure and encumbrance reports, ensure correct use of Object Codes, and present complete and accurate forecasts of electricity needs. Complete and accurate forecasts must include shortfall estimates, actual 12-month billing, projected rate increases, costs for new facilities and modifications, and miscellaneous growth factors such as new technology. (Contains a letter of response from the affected agency.) (TEJ)

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Fiscal Accountability of the Department of Education: Tracking Responsibility for Utility Costs

A Report to the Governor and the Legislature of the State of Hawaii

Report No. 99-16
April 1999

THE AUDITOR
STATE OF HAWAII

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Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.

2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.

3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.

4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.

5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.

6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds and existing funds meet legislative criteria.

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THE AUDITOR
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A Report to the Governor and the Legislature of the State of Hawaii

Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 99-16
April 1999

Foreword

This is our fifth annual fiscal accountability report of the Department of Education required by Section 302A-1004, Hawaii Revised Statutes. In this report, we review and assess the shifting of responsibility for paying utility bills from the state office to the school level. Our review includes an assessment of the adequacy of the department's allocations of electricity and telephone funds to schools. We also determine whether the department maintains complete and accurate telephone, electricity, sewer, gas, and water cost records by location.

We wish to express our appreciation for the cooperation and assistance extended by officials and staff of the Department of Education during the course of this audit.

Marion M. Higa
State Auditor

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Chapter 1
Introduction

Since 1994, the State Auditor, directed by legislative mandate, has published a series of reports on the Department of Education's budget process, programs, expenditures, and expenditure reporting. This review of the Department of Education's utilities expenditures is the fifth annual fiscal accountability report required by Section 302A-1004, Hawaii Revised Statutes (HRS).

In this report, we review and assess the shifting of responsibility for paying utility bills from the state office to the school level. Our review includes an assessment of the adequacy of the department's allocations of electricity and telephone funds to schools. We also determine whether the department maintains complete and accurate telephone, electricity, sewer, gas, and water cost records by location.

Background

A series of fiscal accountability reports has been issued by our office in response to the Legislature's desire to better understand the structure and nature of the Department of Education's budget process, programs, and expenditures. This report reviews the budget process and expenditures for the department's utility programs.

The Department of Education has five budget programs, excluding public libraries. These programs are as follows:

- EDN 100 - School-Based Budgeting;
- EDN 200 - Instructional Support;
- EDN 300 - State and District Administration;
- EDN 400 - School Support; and
- EDN 500 - School Community Service.

Utilities are budgeted within the School Support Program, EDN 400.

A review of the department's utility expenditures is warranted. Utilities are an important cost component because all schools require access to adequate utility services to operate. While schools have been given the responsibility to pay their own telephone and electricity bills, the department has retained responsibility for paying other utility costs, such

as gas, water, and sewer. The impact of giving schools this responsibility needs to be examined. As we have noted in other reports, schools require sufficient resources and support to handle additional new responsibilities that have been delegated to them from central administration.

Utility programs

The department's utility programs include electricity, telephone, water, sewer, and gas. Schools are currently billed directly for electricity and telephone costs, whereas the department purchases water and sewer services from county governments and pays those costs centrally. Gas services are also paid centrally.

In the Department of Education's January 1997 *Operating Budget Request: Fiscal Biennium 1997-99*, the department estimated that electricity costs would comprise approximately two-thirds of the department's utilities budget. Telephone, water, sewer, and gas costs together would account for the remaining one-third of the budget.

Electricity

In July 1995, schools became responsible for processing the payment of their own electricity costs when they first received an allocation designated for their electricity programs. Schools receive electricity invoices directly from the electric companies and are responsible for processing those invoices for payment on the department's Financial Management System.

Schools receive services from different electric companies. On Oahu schools are served by Hawaiian Electric Company, Inc. (HECO). Three Oahu schools located on military property pay for their electricity costs directly to the military. Maui, Lanai, and Molokai schools are served by Maui Electric Company, Ltd. (MECO). Hawaii Electric Light Company, Inc. (HELCO) provides electricity to Big Island schools. MECO and HELCO are subsidiaries of HECO. Kauai Electric, a division of Citizens Utilities Company, provides electricity to Kauai schools.

Electricity is the largest utility expense for the department. For FY1996-97, the department reports that $12,941,501 was spent for the electricity program (Program ID 37326). In FY1997-98, the total amount spent for this electricity program rose to $14,201,701.

Telephone

Responsibility for processing payment of telephone costs was shifted to schools in July 1994 when schools were notified that they would receive an allocation for telephone costs. The telephone allocation is intended to cover the cost of administrative telephones, which are those used by

principals, vice principals, counselors, clerical staff, health aides, librarians, and other state funded personnel. Telephone lines and telephone allocations to each school are affected by such factors as student enrollment and school level, i.e. elementary, intermediate, or high school. Schools may install and maintain additional telephone lines, but the costs of additional lines may not be covered under the telephone allocation.

Telephone rates for schools vary by the types of telephone services and systems available. The Department of Education participates in the State's Hawaii Advanced Telephone System (HATS) agreement with GTE Hawaiian Tel. The HATS agreement offers benefits such as reduced monthly rates and dialing five digits between participating HATS locations. A few schools remain on older systems that will not accommodate HATS service and pay significantly higher rates than schools subscribing to HATS. The differing telephone rates are factored into the telephone allocations to schools.

Telephone costs are the fourth largest utilities expense for the department. The department reports that $916,085 was spent under the telephone program (Program ID 37325) in FY1996-97 and that $1,067,410 was spent in FY1997-98.

Gas, water, and sewer

Responsibility for gas, water, and sewer costs is retained at the state level and invoices are sent to the department's Accounting Section for processing. In the process of paying the gas, sewer, and water bills, the department produces statistical reports (EB DK6 Utilities Reports), which are used by the department to track and monitor usage and costs by utility, by month, and by school.

Gas program (Program ID 37328) expenditures were $343,268 and $244,247 for FY1996-97 and FY1997-98, respectively. These expenditures do not include gas expenditures incurred by the School Food Services Branch.

The department spent $1,897,204 for its sewer program (Program ID 37324) in FY1996-97 and $2,117,368 in FY1997-98. Water program (Program ID 37327) expenditures were $2,440,784 in FY1996-97 and increased to $3,275,547 in FY1997-98.

Department of Education expenditure reports

The department's Financial Management System produces reports which show expenditures by location, program, and type of commodity purchased. Several different codes are used to identify and track costs.

Expenditures by Organization ID

The department's Financial Management System generates a DAFR385A report which records expenditures by Organization ID. A six-digit code (or Organization ID) identifies the school, and if necessary, the department or other sub-unit within the school to which the purchase is charged. For example, the six-digit code for Farrington High School is 106000. Within each Organization ID, expenditures are categorized by program and then sorted by the type of product or service purchased.

Expenditures by Program ID

A five-digit code, referred to as the Program ID, specifies the program to which the cost can be assigned. The Program ID broadly identifies the purpose of the expenditure. For example, the purpose of the electricity program, Program ID 37326, is to provide funds for electricity for the schools. The Program IDs for the five utility programs are listed in Exhibit 1.1.

Exhibit 1.1
Program IDs for Five Utility Programs

Program ID	Description
37324	Sewer
37325	Telephone
37326	Electricity
37327	Water
37328	Gas

The DAFR385B report, which is generated using the Financial Management System, records expenditures by Program ID. Expenditures for each Program ID are then grouped by Organization ID and then by Object Code.

Expenditures by Object Code

Object Code refers to the type of service or product being purchased or used. This four-digit code captures costs for specific services such as electricity services or telephone services. Object Codes fall under three major cost categories: Personal Services, Current Expenses, and Equipment. Over 100 different Object Codes are assigned to the Current Expenses and Equipment categories, a sample of which appears in Exhibit 1.2.

Exhibit 1.2
Selected Object Codes for Current Expenses and Equipment

Object Code	Description
3801	Telephone and Telegraph
3802	Teleprocessing Line Charge
5001	Electricity
5101	Gas
5201	Water
5301	Sewer
5402	Other Utilities
5810	Repair & Maintenance of Telecommunications Equipment
7712	Telecommunications Equipment

If a school uses the Financial Management System properly and accurately, it can easily monitor utility costs (except gas, water, and sewer which are paid centrally) and track those costs over a period of time to determine whether the school is spending its resources appropriately.

Prior Audits

With the help of Dr. Bruce Cooper, a Fordham University professor who developed the Micro-Financial Analysis Model, we published our 1994 study, *The Feasibility of Applying the Micro-Financial Analysis Model to Expenditures for Public Education in Hawaii: What Reaches the Classroom?*, Report No. 94-6. This report demonstrated that it was possible to track Hawaii's public school expenditures on a state, district, and school-by-school basis as well as categorize expenditures by certain administrative and instructional functions.

Our 1995 report, *Status Report on Monitoring Fiscal Responsibility of the Department of Education*, Report No. 95-5, found that the department's reports of expenditures by function did not reliably identify how educational dollars are being spent. Furthermore, because of the department's lack of management controls, we could not verify the accuracy of state and district office costs attributed to the schools.

In a subsequent report, *Status Report on Monitoring Fiscal Accountability of the Department of Education: Case Study - Royal Elementary School*, Report No. 95-23, we used a case study approach. After examining all costs attributed to one elementary school, we noted that the department lacked adequate state, district, and other support agency expenditure information to determine the operational costs of specific schools and programs.

In Report No. 96-8, *Financial Audit of the Public School System*, we reported that the department had resisted legislative mandates to report expenditures at the school level. We also found that financial reports were not always useful or understood by users.

In Report No. 97-1, *Fiscal Accountability in the Department of Education: How Accurate Are Textbook Costs?*, we looked at school level expenditures for textbooks and other instructional materials and found that expenditure data for these items were unreliable. Finally, in our last report, *Fiscal Accountability of the Department of Education: The Public and the Schools Need to Know the True Costs of Education*, Report No. 98-5, we found that the department's expenditure reports were not as useful as those generated by *InSite - The Financial Analysis Model for Education™ (InSite)*. *InSite* is an inexpensive, easy-to-use computer program that reports education expenditures by location, function, and program. *InSite* was developed jointly by the accounting firm of Coopers and Lybrand and the Center for Workforce Preparation.

Objectives

1. Determine whether the Department of Education maintains complete and accurate telephone, electricity, sewer, gas, and water records by location.

2. Assess the adequacy of the department's allocation of electricity and telephone funds to the schools.

3. Review and assess the impact of decentralizing the responsibility for paying utilities costs to the school level.

4. Make recommendations as appropriate.

Scope and Methodology

The period of review was primarily FY1996-97 and FY1997-98. We reviewed the department's program objectives as they related to utilities. We also reviewed the department's responsibilities and management practices with regard to monitoring and paying utility costs.

We reviewed the department's Financial Management System expenditure reports for FY1996-97 and FY1997-98 to determine utility costs. These included a custom report that the department prepared for our office. The expenditure reports track costs by school, by program, and by product or service.

To determine how the department budgets for and allocates funds for the utility programs, we interviewed school-level and state office personnel, including the program managers for the telephone and electricity

programs. We reviewed budget testimony, budget documents, allocation documents, and guidelines for implementation of the allocations. We also reviewed the HATS contract with GTE Hawaiian Tel and correspondence between the Department of Education and the Honolulu Department of Wastewater Management regarding the negotiation of sewer costs for Oahu schools.

We reviewed a sample of purchase orders and invoices for the utility costs at 15 schools statewide.

Our work was performed from July 1998 through February 1999 in accordance with generally accepted government auditing standards.

Chapter 2

Shifting Selected Payment Responsibilities to the Schools Needs to be Better Planned

The Department of Education failed to develop clear objectives when it shifted the responsibility for paying electricity and telephone costs from the state level to the schools. It also failed to determine whether schools would have sufficient resources to handle this responsibility. Consequently, potential benefits that might have accrued to the department or to the schools have not been realized. In addition, the department has failed to maintain accurate and complete information about utility costs by school. Without such information, the department's ability to defend its budget request to the Legislature is compromised. At the school level, the most germane issue is whether funds are sufficient to pay costs. Unfortunately, some schools were not allocated sufficient funds to pay for their annual electricity costs.

Summary of Findings

1. The Department of Education has shifted the responsibility for paying electricity and telephone costs to the schools, but has not adequately formulated objectives for this initiative. The department also has not ensured that schools have adequate resources and support to handle this responsibility.

2. The department's expenditure reports do not provide complete and accurate utilities expenditures by location.

3. In FY1996-97 and FY1997-98, a number of schools did not receive sufficient allocations to cover their electricity costs.

The Department of Education Has Failed to Adequately Plan for the Shift of Responsibilities for Utilities to the Schools

Approximately five years ago, the Department of Education began to shift responsibility for processing payment of utility costs from the state level to the school level. Initially, the department intended to shift this responsibility for all utilities beginning with telephone and electricity. However, the department decided to retain responsibility for paying gas, water, and sewer bills because of the problems encountered with electricity. Although the department shifted some responsibilities to the school level, it retains management responsibilities for the telephone and electricity programs, such as budgeting and allocating funds.

The objectives of this shift are not clear. Department personnel contend that schools were given the responsibility for electricity payments to encourage energy conservation at the school level. Also, the department

wanted to give schools more flexibility, accountability, and autonomy regarding their utilities allocations. However, we found no evidence that these objectives were formalized.

Schools are responsible only for payment of the utility bills. Consequently, the impact at the school level has been negative. Schools report that the department has not given them additional clerical or administrative support to handle the shifted responsibilities. Although relatively insignificant, the additional time required to process utility bills does add to the current workload of clerical and administrative staff who are reportedly already being overburdened. In addition, some schools face the task of having to manage insufficient electricity allocations. They consequently scramble for additional funds by tapping into other program funds or by delaying payment on electricity bills until funds are received from future allocations.

Some responsibilities were shifted but management responsibilities were retained

Some responsibilities were shifted to the school level, but the department has retained management responsibilities that include budgeting, determining allocations to schools, and pre- and post-auditing payments. Schools process their own electricity and telephone payments, but the department still handles gas, water, and sewer payments.

Schools process telephone and electricity payments, but the department retains management functions

The department shifted certain functions to the schools beginning in July 1994 when schools became responsible for processing payments of their own telephone costs. One year later, schools assumed responsibility for their electricity costs as well. This decision, reportedly made by the superintendent and Department of Education leadership, originally included a plan for schools to handle all utilities.

Currently, the department allocates funds to the schools for telephone and electricity costs. Schools receive their telephone and electricity invoices from the service providers and review them for accuracy. They process payments on the Financial Management System, and forward invoices to the department's Vouchering Section for pre- or post-auditing and release of payment. Some schools release their own payments.

The department has retained several important management functions. It prepares the budget requests for any workload increases for the two utility programs, and allocates funds to individual schools. Electricity funds are allocated to schools based on historical usage and projected requirements. Electricity requirements for new facilities and additions or modifications to existing facilities are also reviewed. Supplemental

allocations are provided as funding is available. Telephone funds are based on a standard formula which prescribes the number of telephone lines per standard student enrollment and school level. The department oversees repair and maintenance of telephone equipment and existing systems and assists schools with the installation of new telephone systems.

The department still retains all responsibility for gas, water, and sewer costs

All responsibilities for the gas, water, and sewer programs remain at the state level. Department officials decided not to shift payment functions for gas, water, and sewer bills because of the difficulties schools have had with their electricity allocations.

Objectives are not clear

There is no evidence that the department formulated clear objectives for shifting responsibility for processing utility payments to the school level. We found no documents depicting the planning process or identifying the objectives of this decision. Several department officials cited increased accountability, flexibility, and autonomy for schools as well as energy conservation as general objectives. However, these claims were not documented.

Due to the lack of clear objectives, any potential benefits to the department and to the schools are not measurable and in fact are largely negated. Schools report that the shift of responsibilities has resulted in more work for which they have received inadequate resources and support.

Furthermore, a department official confirms that schools felt penalized when they conserved funds and saw their balances given to other schools. In FY1996-97, the department transferred funds from schools it estimated would have balances at the end of the year to schools it estimated would be short. Therefore, schools questioned whether the department sincerely intended them to benefit from their savings. Some schools that have state and district offices located on their campuses are concerned about the impact of these offices on the schools' electricity costs. These schools feel they lack control over all electricity costs on their campuses. Lastly, schools with shortfalls have historically received supplemental allocations; therefore, schools that may not be conserving are rewarded rather than penalized by the department.

A potential benefit was negated

Department personnel assumed schools would have flexibility to use their electricity savings for other school priorities. However, this benefit

was negated in FY1996-97 when the department transferred electricity funds from schools with projected balances to schools with projected deficits.

The department's Accounting Section estimated how much schools would be short of funds for electricity or how much they would have in excess. The projections were used to adjust the allocations to schools. Schools with estimated shortfalls received additional funds while the electricity programs for schools with estimated balances were reduced.

Consequently, schools that felt they had conserved saw their savings taken away. Schools may now have little incentive to continue implementing energy conservation measures.

School accountability has been compromised

School accountability is compromised when schools do not control all campus electricity consumption. Some schools pay for electricity costs of state and district offices operating on their campuses without controlling consumption. Electricity allocations are intended to cover all electricity costs for the entire facility, including the portion that houses district staff and adult education classes. However, school personnel at two schools expressed concern about the effect those offices had on the schools' electricity costs. Air conditioning and electronic equipment were cited as contributing factors to high consumption by the state and district offices.

Conservation efforts are unclear

Department of Education officials cited energy conservation as an objective of giving schools responsibility for their own electricity costs. However, transferring only the responsibility for processing utility bills may not promote conservation efforts. It is not clear whether those schools that attempted to conserve did so due to their increased awareness of their costs or because their electricity allocations were inadequate.

In addition, schools may not be accountable for controlling costs if they continue to receive supplemental allocations to cover projected shortages in funds to pay electricity costs. Some schools may continue at their present level of consumption if they believe the department will cover their shortfalls. However, schools should not be penalized when their allocations are short due to factors over which schools have no control. These factors could include new or renovated facilities, increased enrollment, new technology and equipment, or authorized air conditioning.

Schools claim they lack sufficient resources and support

If schools are given new responsibilities they should have adequate resources to undertake those tasks. Schools report that administrative support has not been provided for the additional workload of paying telephone and electricity costs.

Some schools also face the task of managing insufficient financial resources. When electricity funds are inadequate, some schools use other program funds to cover the shortfalls. Other schools delay paying year-end bills until the next fiscal year's allocations are received.

These conditions have led to questionable school practices which the department may not have foreseen—such as taking funds away from other school priorities and paying bills late. We noted earlier that the department failed to formulate clear objectives. Another shortcoming has hindered the effort to shift responsibility for utility costs to schools. To date, the department has not assessed the impact of the additional workload at schools for processing utility bills.

School offices are reportedly short-staffed

Clerical staff are reportedly working after hours, and possibly without pay, to complete their work. Several school principals and department officials report that school office staff are already overworked because of the added administrative demands of the *Felix* consent decree and other demands of decentralization. Using a 1990 Department of Education School Clerical Staffing Study, the department estimated that it was 291 school staff short of fulfilling its staffing formula for FY1997-98.

Department of Education officials now contend that the staff shortage may be closer to 400 or 500 if other responsibilities, such as those associated with the *Felix* consent decree, are considered. However, the department has not conducted a subsequent study to verify this estimate.

School level personnel report that processing telephone and electricity payments increased the workload of already overworked school administrative services assistants (SASA) and account clerks. Department of Education officials acknowledge that shifting responsibility for gas, water, and sewer costs to the school would further increase the school workload.

Our *Audit of Student Transportation Services*, Report No. 99-1, also noted that "the issue of clerical support is a big concern for school officials. Many feel that schools are already short of clerical and administrative support staff."[1] School officials feel that giving schools additional responsibilities will increase the burden on schools.

Current fiscal year electricity allocations pay for previous fiscal year electricity costs

Some schools have used current fiscal year allocations to pay for previous year electricity costs. School personnel and department officials confirm that the department recommends that schools delay paying their bills when additional electricity funds are unavailable.

Delaying payment on bills until future allocations are received can become costly when schools are assessed late payment charges by the electricity companies. Finally, we note that paying past fiscal year costs with current fiscal year allocations distorts the department's true electricity costs.

Other program funds pay for electricity costs

Our review of purchase orders and invoices indicates that schools are using non-utility funds, and occasionally instructional funds and other EDN 100 (School-Based Budgeting) funds, to pay for electricity costs. Information from the department's expenditure reports also confirms this practice. Using other program funds to pay for electricity reduces the money available for other priorities, and in some cases, may take money away from the classroom.

The propriety of using instructional funds or other EDN 100 funds to pay for electricity costs is questionable. Section 302A-1301(b), Hawaii Revised Statutes, does not permit the department to transfer any funds appropriated under school-based budgeting in EDN 100, except for unforeseen circumstances that affect the health and safety of students and personnel.

We found evidence that the department discourages schools from using EDN 100 funds to pay for electricity; however, it appears that schools continue to do this. On the other hand, the department encourages schools to use revenues from community use of school facilities to pay for electricity costs. The use of these revenues is appropriate because a portion of the fees charged for community use of school facilities is supposed to offset the electricity cost incurred by community groups.

An assessment of the impact of schools processing utility bills has not been made

The department has not made a formal assessment of the impact of shifting responsibility for paying utility costs to schools. A general assessment of restructuring responsibilities was made in a 1997 survey; however, the survey did not specifically address the impact of giving schools responsibility for their own telephone and electricity costs. The

report does note that "schools are handling much more tasks [sic] because of district cutbacks. Schools are suffering and want and need more direct services."[2] Lacking a formal assessment of the impact of the shift, the department has little basis for determining whether to continue having schools pay their utility costs or modify the decision.

Expenditure Reports Are Not Complete and Accurate

The Department of Education's expenditure reports do not provide complete and accurate utilities expenditures by location. Consequently, a clear picture of the department's actual utility costs cannot be gleaned from these reports. Lacking this picture, the department and the schools will have difficulty budgeting for those costs effectively. Additionally, the department may have difficulty defending its budget request to the Legislature if it does not have reliable expenditure information. Expenditures for electricity, telephone, gas, water, and sewer should be readily identifiable in the department's expenditure reports. A uniform and consistent practice of using assigned Object Codes would help to achieve this objective.

The Financial Management System (FMS) can print reports showing expenditures by Object Code as were provided to our office. Expenditure and encumbrance reports for selected Object Codes are first sorted by Organization ID and then by Program ID. If utility expenditures are correctly coded, total utility expenditures can be reported by location and program.

Utility costs are not displayed in a useful format

The department does not capture and display utility costs in a format that allows the department and schools to completely and readily track those costs. Utility costs are captured by Program ID (such as 37326 for electricity, and 37325 for telephone) and by Object Code (such as 5101 for gas) in the department's FMS system. The Program ID code identifies the purpose of the expenditure, and the Object Code identifies the type of product or service being purchased. Utility costs are captured in several reports produced by the department's FMS system. Costs are reported by Organization ID in the DAFR385A report. Another report, the DAFR385B report, identifies costs by Program ID across Organization IDs. Through FMS, the department can print customized expenditure reports by Object Code. However, none of the reports that we reviewed provided a complete and accurate accounting of utilities costs by location.

Tracking costs by Program ID may be unreliable for two reasons. First, the Object Codes for electricity, telephone, gas, water, and sewer expenditures occasionally appear in non-utility Program IDs (such as Basic Needs and School Administration). Second, some utility Program

IDs appear to have unrelated expenditures. For example, in FY1997-98, the total expenditures reported in Program ID 37326 (Electricity) was $14,201,701. Of that amount, $144,120 may have been expended for products or services other than electricity.

Tracking costs by Object Code appears to provide the best approximation of costs by location. This primarily applies to telephone and electricity costs since these costs occur at the school level where they are paid. Tracking expenditures by Object Code is also useful for identifying expenditures for gas, water, and sewer by location, although these expenditures are paid at the state level. Gas expenditures under the Food Services Special Fund are reported by school.

Some costs are miscoded

The department has failed to ensure that schools correctly charge utility costs to the appropriate Object Code and Program ID. Some schools use other Object Codes than those assigned to the telephone, electricity, gas, water, and sewer utilities. Some schools code their utility expenditures under a generic "Other Utilities" Object Code 5402. Still other schools use the gas utility Object Code to report their expenditures for fuel gas. True costs cannot be reported when codes and categories are not consistently applied by all schools.

Other Utilities Object Code masks actual utility commodity purchased

"Other Utilities" Object Code 5402 is supposed to be used by schools to report utility services that are not otherwise classified, such as garbage disposal. However, schools incorrectly use Object Code 5402 to record electricity and telephone expenditures. As a result, the department's true costs for the electricity Object Code 5001 and the telephone Object Code 3801 may be underreported.

Our review of electricity and telephone costs found instances of improper cost coding. For example, in FY1996-97, two schools used Object Code 5402 to record electricity program expenditures totaling $73,157. In FY1997-98, one school used Object Code 5402 to record electricity program expenditures of $138,774. In both FY1996-97 and FY1997-98, two schools used Object Code 5402 under the telephone program for expenditures totaling $4,696 in FY1996-97 and totaling $5,153 in FY1997-98.

Schools use the gas Object Code incorrectly

Some schools have been using the wrong Object Code to report expenditures for fuel gas. The *FMS User Policy and Process Flow Guide* indicates that Object Code 5101 includes charges for gas power furnished by public utilities. Separate Object Codes are assigned for fuel

gas. Object Code 3007 (Motor Vehicle Supplies) is used to record fuel costs for motor vehicles while Object Code 5401 (Fuel & Lubricants Non Vehicle) is for fuel expenditures for other than motor vehicles. Our review of the department's expenditure reports showed some schools incorrectly used Object Code 5101 to account for expenditures under programs such as Driver Education (Program ID 16355) and Custodial Supplies (Program ID 37297). Several schools we visited indicated these Object Code 5101 expenditures reflected fuel costs for driver education vehicles and maintenance equipment.

Some expenditures are miscoded

Some expenditures are simply miscoded. We found several instances where utility expenditures were reported using Object Codes completely unrelated to utilities. In one case, a school reported telephone costs using the Object Code for educational supplies. Another school used the Object Code for custodial supplies to report an expenditure for telephone cable. In some cases, school personnel could not explain why non-utility Object Code expenditures appeared under their utility programs.

Complete and accurate expenditure reports would help make budget requests more defensible

Complete and accurate expenditure reports would provide the department with more reliable information about their costs. The amount of money expended on a utility program for a given fiscal year should closely reflect the amount budgeted for that program. If significant variances exist, the department should justify them to the Legislature to ensure the adequacy of future funding.

Complete and accurate expenditure reports would be particularly valuable to reinforce the department's electricity budget requests to the Legislature; however, to date, the electricity expenditure reports have been flawed. As we noted previously, the practice of using current fiscal year electricity allocations to pay for previous fiscal year electricity costs has distorted the department's true electricity costs. Using other program funds to pay for electricity costs underrepresents the department's total electricity costs. Improperly coded electricity expenditures may result in underreported electricity costs. The department should address these issues to ensure that its expenditure reports support its budget requests.

Schools Did Not Receive Sufficient Electricity Allocations

In FY1996-97 and FY1997-98, some schools did not receive sufficient allocations to cover their electricity costs. Schools should receive enough funding to pay for their electricity costs, within reasonable parameters established by the Department of Education. Several factors contributed to the lack of funding for schools.

The department's workload increase request was not funded

The department's fiscal biennium 1995-97 budget request for electricity workload increases was not funded by the Legislature in the 1995 regular session. The department failed to obtain a workload increase of $1,966,041 for FY1995-96 and an initial request of $3,204,759 for FY1996-97. As it reviewed the department's request, the Legislature sought to independently verify the department's figures and obtained information that led it to conclude that no increase was needed. Subsequently, it was found that the information the Legislature used did not include the costs for neighbor island schools and schools located on military bases.

As a result, the appropriation was insufficient to cover all electricity costs. The shortfall became apparent and the department returned to the 1996 Legislature to request an emergency appropriation of $1,184,156. Act 72, SLH 1996, which appropriated the requested amount, states that "the extent of the increase in costs for electricity...was anticipated and requested but not funded by the legislature."[3]

In the 1996 session, the Legislature also approved a workload increase of $1,770,567 for FY1996-97, even though the department's request for a workload increase was $1,734,666. Since the Legislature appropriated more than the department's budget request, any shortfalls experienced during FY1996-97 cannot be attributed to the Legislature. Rather, the shortfalls may stem from deficiencies in the department's electricity cost projections.

Projected costs were underestimated

Budget requests underestimated actual electricity costs. These requests were based on past electricity costs, new schools, and projected rate increases, but failed to realistically account for additions and modifications to existing facilities. Prior budget requests also used a questionable growth factor of 1.5 percent.

The department did not budget for the electricity needs of additions and modifications to existing school facilities. Its FY1996-97 workload budget request to the Legislature was justified by utility rate increases, an annual growth of 1.5 percent and construction of new schools. Construction of new classrooms and libraries, the placement of temporary portable buildings on campuses, significant air conditioning projects, and renovations were excluded from the budget request.

Formerly, the department used 1.5 percent as the annual growth rate for electricity consumption. For FY1998-99, a growth factor of 2.5 percent was used in the department's supplemental budget request. The use of an annual growth factor may be warranted; however, the department is unable to justify its use of the 1.5 percent and 2.5 percent. Providing evidence to support the use of a growth factor percentage would strengthen the department's future budget requests to the Legislature.

The Board of Education restricted the electricity allocation

The problem was further compounded when the Board of Education reduced the amount of electricity funds available for allocation to schools. Of the $13,215,841 appropriated by the Legislature for electricity in FY1996-97, a total of $247,533 was restricted by the Board of Education. Department personnel report that the Board of Education imposed spending restrictions on other programs in order to fund legislatively unfunded needs.

The department is improving its budgeting process for electricity

Although the department's prior budget requests underestimated projected costs, there is evidence that the department is improving its process of projecting electricity costs. The department now requires electric companies that serve the schools to send quarterly billing and usage reports to the department. This data is then used to develop budget requests and to determine allocations to schools. As noted above, previous budget requests did not account for additions and modifications to existing school facilities. The Department of Accounting and General Services now sends the department monthly updates on the status of improvement projects on school campuses. These updates are used to anticipate and budget for the electricity consumption of new school facilities opening during the school year, and to determine future allocations to schools. The Public Utilities Commission provides the department with copies of electricity rate trend graphs for each electric company, which are used to anticipate changes in utility rates for electricity.

Allocations were insufficient

In FY1996-97, the department estimated that 146 out of a total of 248 schools would not be able to cover their electricity costs for the fiscal year. The department concedes that the estimates for specific schools were inaccurate in the majority of cases. In FY1997-98, the department estimated that 165 out of a total of 250 schools would not have sufficient funds to pay for electricity costs. We did not test the accuracy of that estimate.

As shown in Exhibit 2.1, we compared the actual electricity costs to the allocations for FY1996-97 for 11 schools. A total of nine out of the 11 schools did not receive sufficient funds to cover their costs. Three of those schools were short by over $15,000. In one case, a school received only 78 percent of the funds needed to cover its electricity costs.

Exhibit 2.1
Comparison of Electricity Allocations to Electricity Costs for 11 Schools

	FY1996-97 Allocation	FY1996-97 Total Actual Costs	Over (under)
Castle High School	$167,232.00	$186,776.62	($19,544.62)
Kalani High School	$87,272.00	$104,797.96	($17,525.62)
La'ie Elementary School	$37,199.00	$33,152.81	$4,046.19
Lanai High & Elementary School	$75,214.00	$76,015.68	($801.68)
Lunalilo Elementary School	$35,682.00	$35,283.60	$398.40
Manana Elementary School	$25,471.00	$27,845.54	($2,374.54)
Maui High School	$184,930.00	$195,667.75	($10,737.75)
Scott Elementary School	$35,550.00	$36,592.83	($1,042.83)
Stevenson Middle School	$54,945.00	$59,735.69	($4,790.69)
Waikoloa Elementary School	$36,372.00	$43,181.58	($6,809.58)
Waimea Elementary & Intermediate	$59,117.00	$75,691.15	($16,574.15)

Source: Department of Education FY1996-97 expenditure reports and Hawaiian Electric Company, Inc. 1996-97 billing reports.

Conclusion

The Department of Education began to shift responsibility for processing payment of utility bills to schools without adequately preparing for this shift. Consequently, schools may be unprepared for the responsibility, have difficulty monitoring costs, and struggle to find the funds to pay for costs beyond the allocated amount. Shifting new responsibilities to the school level will continue to be problematic unless the department can ensure that schools receive sufficient resources and support. In addition, the department should ensure that complete and accurate expenditure reports provide meaningful and useful data to their users.

Recommendations

1. The Department of Education should review the decision to shift responsibilities for telephone and electricity costs to the schools, assess the impact of this decision, establish objectives as appropriate, and ensure that any responsibilities given to the schools are accompanied by sufficient resources and support.

2. The department should standardize an expenditure and encumbrance report for each of the utility Object Codes sorted by Organization ID and Program ID for use by the utility program managers, schools, and the public to track complete utility expenditures.

3. The department should ensure that schools are using the correct Object Codes to code their utility expenditures.

4. As part of future budget requests for the electricity program, the department should present to the Legislature a complete and accurate forecast of the department's electricity needs, which would include:

   a. An estimate of any shortfalls from previous fiscal years based on a comparison of actual electricity costs to allotted electricity funds;

   b. Actual 12-month electricity costs from the most current available billing reports;

   c. An estimate of the projected rate increases;

   d. The projected costs of electricity for new facilities and any additions and modifications that will be completed during the fiscal year; and

   e. A justifiable projection of increases for miscellaneous growth factors, such as new technology.

Notes

Chapter 2

1. Hawaii, The Auditor, *Audit of Student Trnasportation Services*, Report No. 99-1, Honolulu, January 1999.

2. Memorandum to Principals from Herman M. Aizawa, Superintendent of Education, Subject: DOE Restructuring Survey Results, August 21, 1997.

3. Section 2, Act 72, SLH 1996.

Response of the Affected Agency

Comments on Agency Response

We submitted a draft of this report to the Department of Education on March 26, 1999. A copy of the transmittal letter to the department is included as Attachment 1. The department's response is included as Attachment 2.

The Department of Education responded that it will take actions, as best it can within budgetary constraints, to comply with our recommendations. Specifically, the department stated that it will review and assess the impact of its decision to shift responsibilities for telephone and electricity cost to the schools. The department also indicated that it will expand and redescribe commodity and Object Codes, emphasize training on proper use of codes, and develop and evaluate the usefulness of a new report for utility Object Codes by Organization ID and Program ID. Finally the Department of Education noted that recommendations for additional information to be included in future budget requests have already been incorporated into the department's 1999-2001 biennium budget request to the Legislature.

ATTACHMENT 1

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

March 25, 1999

COPY

The Honorable Paul G. LeMahieu
Superintendent of Education
Department of Education
Queen Liliuokalani Building
1390 Miller Street
Honolulu, Hawaii 96813

Dear Dr. LeMahieu:

Enclosed for your information are three copies, numbered 6 to 8 of our draft report, *Fiscal Accountability of the Department of Education: Tracking Responsibility for Utility Costs*. We ask that you telephone us by Tuesday, March 30, 1999, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Monday, April 5, 1999.

The Governor and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Marion M. Higa
State Auditor

Enclosures

BENJAMIN J. CAYETANO
GOVERNOR

PAUL G. LeMAHIEU, Ph.D.
SUPERINTENDENT

STATE OF HAWAII
DEPARTMENT OF EDUCATION
P.O. BOX 2360
HONOLULU, HAWAII 96804

OFFICE OF THE SUPERINTENDENT

April 5, 1999

RECEIVED
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OFC. OF THE AUDITOR
STATE OF HAWAII

The Honorable Marion M. Higa
State Auditor
Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813-2917

Dear Ms. Higa:

We appreciate the opportunity to respond to the recommendations in your report entitled *Fiscal Accountability of the Department of Education: Tracking Responsibility for Utility Costs.*

We will take actions, as best we can within budgetary constraints, to comply with the recommendations. Although most of our current efforts have been focused on evaluating, assessing, and improving our primary mission of delivering the highest quality of educational services to our students, we have also begun and will continue efforts to prioritize, evaluate, and assess as to how our support services can be provided more effectively as well. Specific comments on the recommendations are on the enclosure.

Very truly yours,

for Paul G. LeMahieu, Ph.D.
Superintendent of Education

PLeM:jl

Enclosure

BEST COPY AVAILABLE

cc: A. Suga, OBS
E. Koyama, Internal Audit

AN AFFIRMATIVE ACTION AND EQUAL OPPORTUNITY EMPLOYER

Fiscal Accountability of the Department of Education:

Tracking Responsibility for Utility Costs

Recommendation:

1. *The Department of Education should review the decision to shift responsibilities for telephone and electricity costs to the schools, assess the impact of this decision, establish objectives as appropriate, and ensure that any responsibilities given to the schools are accompanied by sufficient resources and support.*

Department Response:

We will review and assess the impact of our decision to shift responsibilities for telephone and electricity costs to the schools, with due consideration given to objectives, resources and support. Due to budgetary constraints, we have had to prioritize and make difficult decisions about how best to effectively use the available resources. Those budgetary decisions may influence the degree of resources and support available for those strategic alternatives, compared to other initiatives which more directly affect the academic achievement of our students in the classroom.

Recommendation:

2. *The department should standardize an expenditure and encumbrance report for each of the utility Object Codes sorted by Organization ID and Program ID for use by the utility program managers, schools, and the public to track complete utility expenditures.*

Department Response:

The Department will develop a new report for each of the utility Object Codes by Organization ID and Program ID as recommended. The Auditor claims this report will help track the utility costs over a period of time. In addition, the Auditor claims this report will help determine whether schools are spending their resources appropriately. (Our view is that the school administrators plan and budget their funds according to programs, and not according to individual functional line items by themselves.) The new report will be distributed to program managers and schools, and a survey will be conducted with the program managers and principals to evaluate and assess the managerial usefulness of the report.

Recommendation:

3. *The department should ensure that schools are using the correct Object Codes to code their utility expenditures.*

Department Response:

The Department will be expanding and redescribing some of the commodity codes and the object codes where problems have been identified, to make it easier for the schools and offices to use. We will also be conferring with the School Support Section to include and emphasize in their training sessions, the revisions made and the importance of using the utility Object Codes correctly.

Recommendation:

4. *As part of future budget requests for the electricity program, the department should present to the Legislature a complete and accurate forecast of the department's electricity needs, which would include:*

   a. *An estimate of any shortfalls from previous fiscal years based on a comparison of actual electricity costs to allotted electricity funds;*

   b. *Actual 12-month electricity costs from the most current available billing reports;*

   c. *An estimate of the projected rate increases;*

   d. *The projected costs of electricity for new facilities and any additions and modifications that will be completed during the fiscal year; and*

   e. *A justifiable projection of increases for miscellaneous growth factors, such as new technology.*

Department Response:

We have already complied with this recommendation for the 1999-2001 biennium budget.